Michigan Department of Treasury
496 (02/06)

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type	Local Unit Name	County
☐County ☐City ☐Twp ☐Village ☒Other	Houghton County Medical Care Facility	Houghton

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
9/30/06	11/17/06	2-19-07

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

	YES	NO	**Check each applicable box below**. (See instructions for further detail.)
1.	☒	☐	All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2.	☒	☐	There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3.	☒	☐	The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4.	☒	☐	The local unit has adopted a budget for all required funds.
5.	☐	☐	A public hearing on the budget was held in accordance with State statute.
6.	☒	☐	The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7.	☒	☐	The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8.	☒	☐	The local unit only holds deposits/investments that comply with statutory requirements.
9.	☒	☐	The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10.	☒	☐	There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11.	☒	☐	The local unit is free of repeated comments from previous years.
12.	☒	☐	The audit opinion is UNQUALIFIED.
13.	☒	☐	The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14.	☒	☐	The board or council approves all invoices prior to payment as required by charter or statute.
15.	☒	☐	To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (*enter a brief justification*)
Financial Statements	☒	
The letter of Comments and Recommendations	☐	No Comments for Current Year
Other (Describe)	☐	

Certified Public Accountant (Firm Name)		Telephone Number	
Anderson, Tackman, & Company, PLC		906-225-1166	
Street Address	**City**	**State**	**Zip**
102 W. Washington St., Suite 109	Marquette	MI	49855
Authorizing CPA Signature	**Printed Name**		**License Number**
Michael Alan [signature]	Michael Alan Grentz		1101027988

HOUGHTON COUNTY MEDICAL CARE FACILITY
Financial Statements as of September 30, 2006 and 2005

TABLE OF CONTENTS

Other Financial Information

Supplemental Report

ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA ROBERT J. DOWNS, CPA, CVA DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

INDEPENDENT AUDITORS' REPORT

Department of Human Services Board
Houghton County Medical Care Facility
1100 W. Quincy Street
Hancock, Michigan 49930

We have audited the statement of net assets of the Houghton County Medical Care Facility, an enterprise fund of the County of Houghton as of September 30, 2006 and 2005, and the related statement of revenues, expenses, and changes in net assets and statement of cash flows for the years then ended. These financial statements are the responsibility of the Medical Care Facility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained *in Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Houghton County Medical Care Facility at September 30, 2006 and 2005, and the changes in its financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 17, 2006 on our consideration of the Houghton County Medical Care Facility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreement and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 5 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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Department of Human Services Board
Houghton County Medical Care Facility

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the table of contents as other financial information are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic statements taken as a whole.

Anderson, Tackman & Company, PLC
Certified Public Accountants

November 17, 2006

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Houghton County Medical Care Facility's financial performance provides an overview of the Facility's financial activities for the year ended September 30, 2006. Please read it in conjunction with the financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

- Net assets for the Facility as a whole were reported at $13,657,505 and $13,123,086, as of September 30, 2006 and 2005, respectively. Nets assets are comprised of 100% business-type activities.

- During the year, the Facility's total expenses were $14,375,795, while revenues from all sources totaled $14,910,214 resulting in an increase in net assets of $534,419.

- A prior period adjustment was made to increase the net patient revenue by $323,234, relating to a previous executive order rate reduction in the variable cost component of the Medicaid reimbursement rate which was reinstated in the 2006 fiscal year.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 8 and 9) provide information about the activities of the Facility as a whole and present a longer-term view of the Facility finances.

Reporting the Facility as a Whole

One of the most important questions asked about the Facility's finances is "Is the Facility as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Facility as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Facility's *net assets* and changes in them. You can think of the Facility's net assets - the difference between assets and liabilities - as one way to measure the Facility's financial health, or *financial position.* Over time, *increases or decreases* in the Facility's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Facility's resident base and the condition of the Facility's capital assets, to assess the *overall financial health* of the Facility.

In the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, we report all of the Facility's activities as business-type activities because the Facility charges a fee to residents to help it cover the cost of services it provides and the Facility is reported as an enterprise fund of the County of Houghton, Michigan.

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

The Facility as a Whole

Table I provides a summary of the Facility's net assets as of September 30, 2006 and 2005.

Table 1
Net Assets

	2006	2005
Current and other assets	$8,740,778	$7,805,954
Capital assets, net	6,623,170	6,763,906
Total Assets	15,363,948	14,569,860
Current liabilities	1,706,443	1,446,774
Total Liabilities	1,706,443	1,446,774
Net Assets:		
Invested in capital assets	6,623,170	6,763,906
Unrestricted	7,034,335	6,035,946
Total Net Assets	$13,657,505	$13,123,086

Net assets of the Facility's business-type activities stood at $13,657,505. Unrestricted net assets—the part of net assets that could be used to finance day-to-day activities stood at $7,034,335.

The $7,034,335 in unrestricted net assets represents the accumulated results of all past years' operations. The results of this year's operations for the Facility as a whole are reported in the Statement of Revenues, Expenses and Changes in Net Assets (see Table 2), which shows the changes in net assets for fiscal years 2006 and 2005.

Table 2
Changes in Net Assets

	2006	2005
Operating revenues:		
Net patient service revenues	$12,663,763	$12,084,894
Other operating revenues	12,594	14,822
Total Operating Revenues	12,676,357	12,099,716
Operating expenses:		
General and administrative	4,005,562	3,624,710
Nursing services	5,404,328	5,235,389
Other expenses	3,814,890	3,524,063
Depreciation	642,051	624,877
Total Operating Expenses	13,866,831	13,009,039
Income (loss) from Operations	(1,190,474)	(909,323)
Non-operating Revenues (Expenses):		
Property taxes and other	1,483,148	1,249,160
Quality Assurance Assessment Program, net of provider tax	729,575	424,692
Maintenance of effort	(508,964)	(522,834)
Other	21,134	8,206
Total Non-operating Revenues (Expenses)	1,724,893	1,159,224
Increase (decrease) in net assets	534,419	249,901
Net assets, beginning, as restated	13,123,086	12,873,185
Net Assets, Ending	$13,657,505	$13,123,086

The Facility's total revenues were $14,910,214. The total cost of all programs and services was $14,375,795 leaving an increase in net assets of $534,419 as a result of fiscal year 2006 operations. The fiscal year 2006 increase in net assets is primarily due to non-operating gains, specifically property tax revenue increase and proportionate share reimbursement increases.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2006, the Facility had $6,623,170 invested in a variety of capital assets including land, buildings, and other equipment. (See table 4 below)

Table 4
Capital Assets at Year-End

	2006	2005
Land and improvements	$13,827	$13,827
Buildings	11,229,292	10,812,809
Equipment and furnishings	2,885,127	2,778,118
Work in progress	2,000	24,179
	14,130,246	13,628,933
Accumulated depreciation	(7,507,076)	(6,865,027)
Totals	$6,623,170	$6,763,906

Capital plans for Fiscal Year 2007 include miscellaneous improvements to the facility with no cost estimates yet.

Debt

The Facility has no outstanding debt at year-end.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The Facility's appointed officials consider many factors when setting the fiscal year 2007 budget. One of those factors is the economy. The Facility is heavily dependent on Medicaid revenue. With the current budget constraints faced by the state and national government, the Facility can expect very little in enhanced Medicaid revenue. The fiscal year 2007 Medicaid rate was not finalized when the budget was prepared and is also subject to mid-year adjustments. On the expense side, significant increases in health and liability insurance and utilities will negatively impact operating income.

The Facility will closely monitor developments in the Medicaid rate setting process and adjust the budget accordingly.

CONTACTING THE FACILITY FINANCIAL MANAGEMENT

This financial report is designated to provide our taxpayers, investors and creditors with a general overview of the Facility's finances and to show the Facility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Facility Administrator at Houghton County Medical Care Facility, 1100 Quincy Avenue, Hancock, Michigan, 49930.

Houghton County Medical Care Facility
Statement of Net Assets
September 30, 2006 and 2005

	2006	2005
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 3,554,192	$ 2,994,352
Internally designated cash:		
Replacement of capital assets	2,375,729	2,235,043
Workers compensation contingency	387,500	387,500
Total Cash and Cash Equivalents	6,317,421	5,616,895
Resident trust - cash	3,780	4,487
Accounts receivable:		
Private insurance and self-pay	256,502	255,420
Medicare	117,519	65,263
Medicaid	741,609	654,253
Other	40,404	40,561
Allowance for doubtful accounts	(155,711)	(132,074)
Other receivables:		
Taxes receivable (net allowance of $10,000)	-	-
Due from State of Michigan	1,108,544	983,876
Due from County	-	-
Inventory of food and other supplies	126,304	119,841
Prepaid expenses	184,406	197,432
TOTAL CURRENT ASSETS	8,740,778	7,805,954
Non-current Assets:		
Capital assets, net	6,623,170	6,763,906
TOTAL ASSETS	15,363,948	14,569,860
LIABILITIES		
Current Liabilities:		
Accounts payable	447,420	227,531
Accrued salaries and wages	108,693	85,946
Accrued sick and vacation pay	470,079	456,035
Payroll and withheld taxes	9,274	7,467
Medicaid interim payments	667,197	665,308
Resident trust funds	3,780	4,487
TOTAL LIABILITIES	1,706,443	1,446,774
NET ASSETS		
Invested in capital assets	6,623,170	6,763,906
Unrestricted	7,034,335	6,359,180
TOTAL NET ASSETS	$ 13,657,505	$ 13,123,086

The accompanying notes to financial statements are an integral part of this statement.

Houghton County Medical Care Facility
Statement of Activities
For the years ended September 30, 2006 and 2005

	2006	2005
OPERATING REVENUES:		
Net patient service revenues	$ 12,663,763	$ 12,084,894
Other operating revenues	12,594	14,822
TOTAL OPERATING REVENUES	12,676,357	12,099,716
OPERATING EXPENSES:		
General and administrative	4,005,562	3,624,710
Maintenance	1,034,062	940,591
Laundry	295,381	299,984
Housekeeping	476,175	444,013
Dietary	1,235,294	1,211,628
Pharmacy	81,619	68,011
Nursing	5,404,328	5,235,389
Social services	-	-
Physical therapy	371,313	277,815
Occupational therapy	232,183	232,500
Vehicles	13,920	10,211
Professional services	29,040	28,472
Other expense	10,053	10,838
Provision for bad debt	35,850	-
Provision for depreciation	642,051	624,877
TOTAL OPERATING EXPENSES	13,866,831	13,009,039
INCOME (LOSS) FROM OPERATIONS	(1,190,474)	(909,323)
NON-OPERATING REVENUES (EXPENSES):		
Property taxes and other	1,483,148	1,249,160
Private contributions	7,009	8,007
Other	14,125	199
Quality Assurance Assessment Program, net of provider tax	729,575	424,692
Maintenance of effort	(508,964)	(522,834)
TOTAL NON-OPERATING REVENUES (EXPENSES)	1,724,893	1,159,224
CHANGE IN NET ASSETS	534,419	249,901
Net assets, beginning of year, as restated	13,123,086	12,873,185
NET ASSETS, END OF YEAR	$ 13,657,505	$ 13,123,086

The accompanying notes to financial statements are an integral part of this statement.

Houghton County Medical Care Facility
Statements of Cash Flows
For the years ended September 30, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net cash received from fees and charges for services	$ 12,100,850	$ 12,014,074
Other operating revenues	12,594	14,822
Cash payments to employees for services	(7,423,621)	(7,199,807)
Cash payments for payroll taxes and fringe benefits	(3,339,141)	(539,212)
Cash payments to suppliers for goods and services	(2,196,969)	(4,804,608)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(846,287)	(514,731)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Cash received from property and other taxes	1,483,148	1,249,160
Cash received from Quality Assurance Assessment Program, net of provider tax	1,052,809	424,692
Cash received from contributions and other sources	21,134	8,205
Cash payments for County maintenance of effort	(508,964)	(522,834)
NET CASH PROVIDED (USED) BY NON-CAPITAL AND RELATED FINANCING ACTIVITIES	2,048,127	1,159,223
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Cash payments for capital assets	(501,315)	(407,225)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(501,315)	(407,225)
Net increase (decrease) in cash and cash equivalents	700,525	237,267
Cash and cash equivalents, beginning of year	5,616,896	5,379,629
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 6,317,421	$ 5,616,896
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	$ (1,190,474)	$ (1,232,556)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	642,051	624,877
(Increase) decrease in assets:		
Accounts receivable	(116,900)	243,204
Due from State	(447,902)	(1,668)
Inventory	(6,463)	(3,847)
Prepaid expenses	13,026	(49,793)
Resident trust - cash	-	-
Increase (decrease) in liabilities:		
Accounts payable	219,888	(170,464)
Accrued wages	22,747	14,104
Accrued sick and vacation pay	14,044	48,672
Accrued payroll and withholding taxes	1,807	2,263
Medicaid interim payments	1,889	10,477
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ (846,287)	$ (514,731)

The accompanying notes to financial statements are an integral part of this statement.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Houghton County Medical Care Facility conform to generally accepted accounting principles as applicable to governments in the United States of America. The following is a summary of the more significant policies:

(1) Fund Accounting – Houghton County Medical Care Facility Enterprise Fund is a distinct entity and, accordingly, consists of a separate set of self-balancing accounts comprised of the Facility's assets, liabilities, net assets, revenues and expense accounts. The Houghton County Medical Care Facility Fund is defined under generally accepted terminology as a proprietary enterprise fund and is reported as such in the County of Houghton, Michigan's financial statements. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises with the intent of the governing body being that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

(2) Basis of Accounting – Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. All proprietary funds are accounted for using the accrual basis of accounting. Under the accrual basis, revenues are recognized when they are earned and expenses are recognized when incurred.

(3) Mission Statement and Nonoperating Revenues and Expenses – The Facility's primary mission is to provide skilled nursing services through its facility. Only those activities directly associated with the furtherance of this purpose are considered to be operating activities.

Other activities that result in revenues or expenses unrelated to the Facility's primary mission are considered to be nonoperating. Nonoperating revenues and expenses include property taxes, county appropriations, maintenance of effort, private contributions, rent, proportionate share reimbursement, and other revenue.

(4) Cash and Cash Equivalents – Cash balances of the Facility are combined with other County funds and invested by the County Treasurer to the extent available in demand and savings accounts, certificates of deposit maturing in less than three months, and other authorized investments. Investments are stated at cost, which approximates market value.

(5) Inventory – Inventory is valued at the lower of cost, (first-in, first-out) or market. Inventory consists of expendable supplies held for consumption.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

(6) Land, Buildings, and Equipment – Land, buildings, and equipment (capital assets) relating to the operations of the Facility are recorded at cost and accounted for in the Houghton County Medical Care Facility Enterprise Fund. Depreciation on such capital assets is charged as an expense against the operations of the Facility using straight-line depreciation. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives ranging from 3 to 40 years.

(7) Board-Designated Assets – Certain investments of the Unrestricted Fund have been internally designated by the Board of Trustees for the funding of plant replacement, expansion and other specified projects and to pay future claims under the County of Houghton's self-insured worker's compensation plan.

(8) Property Taxes – Property taxes levied attach as an enforceable lien on property. Taxes are levied on December 1 and are payable before March 1 of the subsequent year. The County Facility tax is collected by the various local tax collecting units (townships, cities, etc.) and is recognized as revenue in the year in which payment is due. Taxes receivable are recorded when levied, as the legal right to receive exists.

(9) Gifts, Grants, and Bequests – Unrestricted gifts, grants and bequests are recorded at fair market value at the date of receipt and recognized as non-operating revenues, except where the donor has restricted its use. Restricted donations are credited directly to the appropriate restricted fund balance. Donations restricted for operating purposes are recognized as operating income as expenditures are made for the purpose designated by the donor. Donations restricted for additions to property, plant, and equipment are recognized in the Unrestricted Fund as the funds are expended.

(10) Use of Estimates – The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

(11) Concentration of Credit Risk – The Facility provides long-term care nursing services to residents of Houghton and Keweenaw Counties. The majority of the Facility's residents are eligible for Medicaid, Medicare, or another insurance. The Facility does, however, grant credit to residents who are ineligible for third-party insurance. The Facility has not experienced any significant losses from uncollectible accounts.

NOTE B – NET PATIENT SERVICE REVENUES:

Patient service revenue is reported at the estimated net realizable amounts from residents, third-party payors, and others for service rendered. Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered.

NOTE B – NET PATIENT SERVICE REVENUES (Continued):

Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement.

Revenues have been reduced by $1,349,115 and $1,517,493 in 2006 and 2005, respectively, to reflect estimated amounts to be realized from third-party payors.

NOTE C – ACCUMULATED SICK AND VACATION LEAVE BENEFITS:

Employees' accrued sick pay is accumulated for all permanent full-time employees at a rate of one-half (1/2) day per bi-weekly pay period, provided the employee is in paid status for eighty percent (80%) of the regular pay period, including unworked paid holidays, paid vacations, and paid leaves. One-half (1/2) of the accumulated sick leave is paid to separated employees at current rates of pay (1) when an employee retires upon reaching the age of sixty (60) years or, (2) upon death while employed at the Facility, one-half (1/2) of the accumulated sick leave will be paid to the designated beneficiary at the employee's rate of pay at the time of death. Accumulated sick pay as of September 30, 2006 and 2005 amounted to $215,835 and $202,404 respectively.

Employees' accrued vacation pay is accumulated for all permanent employees at a rate of one-half (1/2) day per bi-weekly pay period, provided the employee is in paid status for eighty percent (80%) of the regular pay period. Bonus annual leave days are earned and credited to an employee in the first pay period in the month on which the anniversary date falls as follows:

1. An additional three (3) days after five (5) years of employment.
2. An additional two (2) days after ten (10) years of employment.
3. An additional two (2) days after fifteen (15) years of employment.
4. An additional two (2) days after twenty (20) years of employment.
5. An additional two (2) days after twenty-five (25) years of employment.

For employees with dates of hire after September 26, 1998, the following restructure of earned annual time would apply. Full and part-time employees would earn on a pro-rated system that will use all hours paid in a pay period up to a maximum of 80 hours to calculate earned benefits. Bonus annual will be built into the rates as years of service increase.

Years of Employment	Maximum Hours of Annual Leave
Beginning through Year one (1)	40
Beginning Year two (2) through Year five (5)	80
Beginning Year six (6) through Year ten (10)	128
Beginning Year eleven (11) through Year fifteen (15)	144
Beginning Year sixteen (16) through Year twenty (20)	160
Beginning Year twenty-one (21) through Year twenty-five (25)	176
Beginning Year twenty-six (26) and thereafter	192

NOTE C – ACCUMULATED SICK AND VACATION LEAVE BENEFITS (Continued):

Annual leave may be accumulated to thirty (30) days and shall be paid at current rates to separated employees. The accumulated vacation pay as of September 30, 2006 and 2005 amounted to $254,244 and $253,631 respectively.

NOTE D – RETIREMENT PLAN:

The Facility has in effect a defined benefit non-contributory retirement plan with Met Life Insurance Company covering substantially all full-time employees. The total retirement expense for the year ended September 30, 2006 and 2005 was $692,762 and $572,515, respectively, and includes amortization of past service costs, which are being amortized over a ten year period. The Facility makes annual contributions to the plan as determined by consulting actuaries. The payroll for participating employees for the year ended September 30, 2006 was $6,399,200, while total payroll expense was $7,213,911.

Pension Disclosure Information

The Pension Benefit Obligation (PBO) is the actuarial present value of credited projected benefits determined in accordance with the projected unit credit cost method prorated by service. It is a standardized disclosure measure of the present value of pension benefits adjusted for the effects of projected salary increases and any step-rate benefits estimated to be payable in the future as a result of employee service to date. This measure is independent of the actuarial funding method used to determine contributions.

The last actuarial valuation date available to determine the PBO is January 1, 2006. Actuarial assumptions used to compute the PBO are as follows:

A. Actuarial Cost Methods – Retirement benefits, vesting, and pre-retirement survivor benefits calculated using the frozen initial liability cost method, with the initial employer liability equal to the January 1, 1974 and amended on March 28, 2005, unfunded employer past service liability based on the entry age normal method. If, in any year, the normal operation of this funding method would produce an unfunded frozen initial liability which is negative, it shall be deemed to be zero.

B. Valuation Assumptions:
   1. Interest – 7%
   2. Expenses and contingencies – 5.0%
   3. Retirement age – The greater of normal retirement age specified in the plan or attained age.
   4. Normal form of retirement annuity – single life annuity.
   5. Mortality – 1983 Group Annuity Table (male and female tables).
   6. Turnover – Allowance is made for turnover among eligible employees.
   7. Projected salary increases – increases of 5.0% per year are assumed.

NOTE D – RETIREMENT PLAN (Continued):

8. Pre-retirement survivor benefit – All participants are assumed to be married to an eligible spouse. Male spouses are assumed to be three years older than their female spouses.
9. Cost of Living – IRC Section 415 limits on salary and benefits are assumed to increase 3.0% per annum.

C. Asset Value:

Experience Rating Accumulation – The asset value equals the balance as of the valuation date in the fixed account, which is available to provide benefit payments and expenses. Contributions received after the valuation date but within the allowable grace period that were intended for plan years ending prior to the valuation date are included in this asset value.

Annual Pension Cost and Net Pension Obligation as of January 1, 2006:	
Annual required contribution, beginning January 1, 2005	$753,491
Interest on net pension obligation as of January 1, 2005	-
Adjustment to annual required contribution beginning January 1, 2005	-
Annual pension cost, beginning January 1, 2005	753,491
Contributions made, beginning January 1, 2005	753,491
Increase (decrease) in net pension obligation as of January 1, 2005	-
Net pension obligation as of January 1, 2005	-
Net Pension Obligation as of January 1, 2006	$-

Analysis of Funding Progress
Three-Year Trend Information

Actuarial Valuation Date	Actuarial Accrued Liability (AAL)-Entry Age (a)	Actuarial Value of Assets (b)	Unfunded AAL (UAAL) (a) - (b)	Funded Ratio (b/a)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
1/1/04	$12,669,590	$12,269,131	$400,459	96.84%	$6,598,757	6.07%
1/1/05	13,652,549	12,991,807	660,742	95.16	6,399,200	10.33
1/1/06	15,391,955	14,024,905	1,367,050	91.12	6,585,290	20.76

Schedule of Employer Contributions
Three-Year Trend Information

Year Beginning 1/01	Annual Pension Cost	Percentage Contributed	Net Pension Obligation at Year End
2003	$758,330	100%	$-
2004	510,576	100%	-
2005	753,491	100%	-

NOTE E – PURCHASE AND REPLACEMENT OF ASSETS:

The Facility has customarily funded depreciation by internally segregating cash and a portion of fund balance equal to the annual depreciation of the assets. The funded depreciation is used to provide for future asset purchases and replacement. An analysis of the activity in the internally designated fund balance-purchase and replacement of assets account is as follows:

	2006	2005
Balance, October 1	$2,235,043	$1,815,892
Funding Provision	626,559	878,106
Asset and replacement purchases	(485,873)	(458,955)
Balance, September 30	$2,375,729	$2,235,043

NOTE F – LAND, BUILDINGS AND EQUIPMENT:

Capital assets relating to the Medical Care Facility (Enterprise Fund) are recorded at cost and accounted for in this fund. Depreciation on such capital assets is charged as an expense against operations of the fund on a straight-line basis. For the years ended September 30, 2006 and 2005 depreciation expense of $642,051 and $624,877, respectively, has been included in the operating expenses of the Facility.

A summary of the capital assets of the Facility is as follows:

	2006	2005
Land and improvements	$13,827	$13,827
Buildings	11,229,292	10,812,809
Fixed equipment	794,264	740,125
Major moveable equipment	2,090,863	2,037,993
Work in progress	2,000	24,179
	14,130,246	13,628,933
Less accumulated depreciation	(7,507,076)	(6,865,027)
Net Investment	$6,623,170	$6,763,906

A summary of the changes in the land, buildings, and equipment is as follows:

	Balance 9/30/05	Additions	Disposals	Balance 9/30/06
Land and improvements	$13,827	$-	$-	$13,827
Buildings	10,812,809	416,483	-	11,229,292
Fixed equipment	740,125	54,139	-	794,264
Movable equipment	2,037,993	52,870	-	2,090,863
Work in progress	24,179	-	22,179	2,000
TOTALS	$13,628,933	$523,492	$22,179	$14,130,246

NOTE G – WORKERS' COMPENSATION SELF-INSURANCE:

The Facility participates in Houghton County's self-insured worker's compensation plan. The County is self-insured to a maximum limit of $300,000 - $350,000 for each occurrence. After the specific limit is reached, a statutory coverage is in place.

As a result of this insurance contract, the Facility has internally designated cash and a portion of fund balance in the amounts of $387,500 and $387,500 for 2006 and 2005, respectively, for the payment of future worker's compensation claims. The self-insurance plan is being administered by Citizens Management.

NOTE H – QUALITY ASSURANCE ASSESSMENT PROGRAM:

The Michigan Department of Community Health, in order to provide continuing access to long-term care services for Medicaid recipients, modified its reimbursement system to participate in a share pool to qualified long-term care providers. Under such plan the system maximizes the federal Medicaid matching revenues through the intergovernmental transfer program. The Facility participates in this program to the extent of its share of Medicaid utilization in relation to the total for Class III Facilities that are governmentally owned.

NOTE I – APPROPRIATIONS FROM COUNTY OF HOUGHTON/MAINTENANCE OF EFFORT:

The State of Michigan, under Public Act 35, established its method of reimbursing county-owned medical care facilities for Medicaid patient days. Under the provisions of the Act, the County of Houghton is required to reimburse the State for a portion of each day of care provided to Medicaid patients at the Facility. No appropriations from the County of Houghton were required to reimburse the State of Michigan in either 2006 or 2005. Property taxes levied by the facility are used to reimburse the State, and were sufficient in both 2006 and 2005.

NOTE J – DEPOSITS:

Deposits

At September 30, 2006, cash was classified as follows in the Facility's statement of net assets:

Cash and cash equivalents		$3,554,192
Internally Designated Cash:		
Replacement of capital assets		2,375,729
Workers compensation contingency		387,500
Resident trust – cash		3,780
	TOTAL	$6,321,201

NOTE J – DEPOSITS (Continued):

At September 30, 2006, cash consisted of the following:

Cash in banks		$(18,728)
Imprest cash on hand		750
Cash held with County Treasurer		6,301,679
Cash held by fiscal agents		37,500
	TOTAL	$6,321,201

The cash of the Facility is combined with the cash of the County of Houghton, Michigan and needs to be considered in conjunction with the overall County cash position in regards to Governmental Accounting Standards Board Statement #40 required note disclosures. This information can be found in the September 30, 2006 combined annual financial statements for the County of Houghton, Michigan.

NOTE K – DEFERRED COMPENSATION PLAN:

The Facility offers its employees a deferred compensation plan in accordance with Section 457 of the Internal Revenue Code. The plan, available to substantially all employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or unforeseeable emergency.

Due to changes in the Internal Revenue Code, the plan's assets are considered to be property of the plan's participants and are no longer subject to the Facility's general creditors. The plan's participants have the right to designate how the funds will be invested. Accordingly, the Facility has no liability for losses under the plan. The plan's assets are held in trust for the exclusive benefit of the plan's participants and their beneficiaries.

NOTE L – CONSTRUCTION IN PROGRESS:

As of September 30, 2006, total construction costs placed into service were $22,179 relating to kitchen improvements and construction costs incurred and reported in work in progress amounted to $2,000.

NOTE M – PRIOR YEAR RESTATEMENT:

In August 2006, the Medical Care Facility received $354,165 relating to the reinstatement of a previously issued executive order cut in the Medicaid reimbursement rate. Of this $354,165, $30,931 was due to Keweenaw County relating to there 15 beds in the facility. The net of $323,234 was record as an adjustment to the net patient service revenue in the Statement of Activities for the fiscal year 2005.

OTHER FINANCIAL INFORMATION

Houghton County Medical Care Facility
Details of Operating Revenues
For the years ended September 30, 2006 and 2005

	2006	2005
PATIENT SERVICE REVENUES:		
Medicare	$ 846,182	$ 672,871
Medicaid	11,642,185	11,620,672
Hospice	258,970	146,520
Private insurance and self pay	1,189,822	1,007,592
Other counties	75,719	154,732
Gross Patient Service Revenues	14,012,878	13,602,387
Less Contractual Adjustments	(1,349,115)	(1,517,493)
NET PATIENT SERVICE REVENUES	$ 12,663,763	$ 12,084,894
OTHER OPERATING REVENUES		
Canteen and pop sales	$ 12,324	$ 14,621
Other sales	270	201
OTHER OPERATING REVENUES	$ 12,594	$ 14,822

Houghton County Medical Care Facility
Details of Operating Expenses
For the years ended September 30, 2006 and 2005

		2006		2005
General and Administrative				
Salaries and wages	$	370,606	$	355,840
Payroll taxes and fringes benefits		3,340,948		2,969,546
Supplies		31,722		32,991
Contractual and consultants		93,397		103,769
Telephone		15,371		16,512
Travel		16,046		13,836
Insurance and bonds		129,307		126,469
Repairs and maintenance		1,132		901
Equipment rental		1,391		1,802
Other expense		-		1,697
Employee training and improvement		5,642		1,347
TOTAL	$	4,005,562	$	3,624,710
Maintenance				
Salaries and wages	$	370,231	$	355,869
Supplies		67,360		78,523
Repairs and maintenance		14,367		34,534
Contractual and consultants		48,333		40,985
Utilities		533,771		430,680
TOTAL	$	1,034,062	$	940,591
Laundry				
Salaries and wages	$	274,056	$	279,910
Supplies		21,325		20,074
TOTAL	$	295,381	$	299,984
Housekeeping				
Salaries and wages	$	398,982	$	376,916
Supplies		76,938		67,097
Repairs and maintenance		255		-
TOTAL	$	476,175	$	444,013
Dietary				
Salaries and wages	$	736,539	$	713,171
Supplies		492,597		494,190
Repairs and maintenance		6,158		4,267
TOTAL	$	1,235,294	$	1,211,628
Pharmacy				
Supplies	$	74,119	$	60,511
Contractual and consultants		7,500		7,500
TOTAL	$	81,619	$	68,011

Houghton County Medical Care Facility
Details of Operating Expenses
For the years ended September 30, 2006 and 2005

		2006	2005
Nursing			
Salaries and wages		$ 4,935,224	$ 4,775,767
Supplies		418,690	414,075
Contractual and consultants		44,260	42,210
Repairs and maintenance		695	1,195
Travel		5,459	2,142
	TOTAL	$ 5,404,328	$ 5,235,389
Social Services			
Salaries and wages		$ -	$ -
	TOTAL	$ -	$ -
Physical Therapy			
Salaries and wages		$ 137,860	$ 132,867
Supplies		7,759	3,509
Contractual and consultants		225,694	141,439
	TOTAL	$ 371,313	$ 277,815
Occupational Therapy			
Salaries and wages		$ 222,870	$ 223,571
Supplies		9,313	8,929
	TOTAL	$ 232,183	$ 232,500
Vehicles			
Supplies		$ 9,089	$ 7,299
Repairs and maintenance		4,831	2,912
	TOTAL	$ 13,920	$ 10,211
Professional Services			
Contractual and consultants		$ 29,040	$ 28,472
	TOTAL	$ 29,040	$ 28,472
Other Expense			
Canteen		$ 10,053	$ 10,838
	TOTAL	$ 10,053	$ 10,838
Depreciation			
Depreciation expense		$ 642,051	$ 624,877
	TOTAL	$ 642,051	$ 624,877
Provision for Bad Debt			
Bad debt expense		$ 35,850	$ -
	TOTAL	$ 35,850	$ -

SUPPLEMENTAL REPORTS

ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS
PARTNERS
JOHN W. BLEMBERG, CPA ROBERT J. DOWNS, CPA, CVA DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE
WISCONSIN
GREEN BAY
MILWAUKEE

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Department of Human Services Board
Houghton County Medical Care Facility
1100 W. Quincy Street
Hancock, Michigan 49930

We have audited the statement of net assets of the Houghton County Medical Care Facility, an enterprise fund of the County of Houghton as of September 30, 2006 and 2005, and the related statement of revenues, expenses, and changes in net assets and statement of cash flows for the years then ended, and have issued our report thereon dated November 17, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Houghton County Medical Care Facility's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Houghton County Medical Care Facility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, and Department of Human Services Board and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLC
Certified Public Accountants

November 17, 2006

102 W. WASHINGTON STREET, SUITE 109 MARQUETTE, MICHIGAN 49855 (906)225-1166 FAX: (906) 225-1714

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MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE
WISCONSIN
GREEN BAY
MILWAUKEE

November 17, 2006

Department of Human Services Board
Houghton County Medical Care Facility
1100 W. Quincy Street
Hancock, Michigan 49930

We have audited the financial statements of the Houghton County Medical Care Facility for the years ended September 30, 2006 and 2005, and have issued our report thereon dated November 17, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standads and OMB Circular A-133
As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Houghton County Medical Care Facility's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Houghton County Medical Care Facility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Houghton County Medical Care Facility's compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Houghton County Medical Care Facility's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Houghton County Medical Care Facility's compliance with those requirements.

Significant Accounting Policies
Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of the accounting policies and their application. The significant accounting policies used by the Houghton County Medical Care Facility's are described in Footnotes to the financial statements. A restatement of 2005 revenue was made to account for a prior period adjustment, details can be found in footnote M. We noted no other transactions entered into by the Houghton County Medical Care Facility's during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

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Accounting Estimates
Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments
For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Houghton County Medical Care Facility's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Houghton County Medical Care Facility's, either individually or in the aggregate, indicate matters that could have a significant effect on the Houghton County Medical Care Facility's financial reporting process.

Disagreements with Management
For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principal to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Houghton County Medical Care Facility's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit
We encountered no significant difficulties in dealing with management in the performance of our audit.

Conclusion
This information is intended solely for the use of the Houghton County Medical Care Facility Board and management and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLC
Certified Public Accountants